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AGENDA ITEM 6b

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

I. SUBJECT: Revision of Self-Funded Healthcare

II. PROGRAM: Fixed Income

III. RECOMMENDATION: Recommend to the Investment Committee approval of the revised Statement of Investment Policy for Self-Funded Healthcare Policy

IV. ANALYSIS:

Historically the Self-Funded Healthcare Program (SFHC) has invested the funds in short term securities. Initially the fund was managed by the State Treasurer's Office. The funds then transitioned to the CalPERS Investment Office while maintaining a short term benchmark. Investment staff proposed greater potential returns by finding a longer term benchmark but was concerned about liquidity requirements.

Healthcare (HC) staff looked at core fund levels to determine if there were funds that could be invested farther out the yield curve for greater potential return. HC staff determined that there were core funds of significant amounts.

Investment staff then tasked Wilshire to find the appropriate benchmark for the SFHC. Attachment 1 is the recommended change from a short term benchmark, State Treasurer's Surplus Investment Fund, to an intermediate term benchmark, Lehman Brothers U.S. Aggregate Index (LAI). This change in benchmark will result in major changes to the Self-Funded Healthcare Policy. The policy is a reproduction of the Dollar-Denominated Fixed Income Policy (DDFI) except for the benchmark which is the LAI versus Lehman Brothers Long Liability Index (LLL). Since the DDFI is a policy that is well understood, a comparison between the two policies seems appropriate to consider changes and risk.

Major difference between the Self-Funded Healthcare and the Dollar-Denominated Fixed Income Policies:

1. Benchmark is the LAI versus LLL

2. Section V, Part B, 4a (Permissible Ranges of Sectors)

    a. No sovereign sector as it is a subset of the corporate sector versus a separate sector for the LLL

    b. Securitized (or mortgage) is 0-70% versus 0-60% in the DDFI due to LAI having only 19% in the sector versus 30% in the LLL. The overweight amount in either policy are similar

V. STRATEGIC PLAN:

This item supports Goal VIII to manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize employer contributions.

VI. RESULTS/COSTS:

There are no costs associated with this item.

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